

PARKING FINE COLLECTION

Internal Controls Review (Job Design Conclusions)

September 21, 2005

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Date: September 21, 2005

To: Yolande Williams, Court Administrator, Seattle Municipal Court

From: Susan Cohen, City Auditor *SC*

Subject: Management Letter – Review of Parking Fine Collection Internal Controls –
Job Design Phase

During the 2005-06 budget process, the City Council passed a Statement of Legislative Intent (SLI) concerning the City of Seattle's parking enforcement process. (See a copy of the SLI attached at Appendix 1.) A section of the SLI directed the Office of City Auditor to review parking fine collection practices. Specifically, the SLI asked for the following:

4. Fine Collection. An analysis of payment process; fine-setting, fine amounts vs. payment amounts, receivables processing and collections, and record keeping and accountability, along with possible recommendations for improvement.

To meet this objective, the Office of City Auditor (OCA) initiated the job design phase of an audit to review the internal controls associated with parking fine collection. The objective of the job design phase was to determine whether internal control procedures appeared adequate to ensure parking fines are accurately recorded and tracked, and fine collection rates are maximized, or if substantive testing (i.e., reviewing a sample of parking fine collection transactions) was required to assess the adequacy of controls. We reviewed the parking citation process from the point after the parking citation is issued through the point at which the monies due are collected and deposited. This review primarily involved functions performed by the Seattle Municipal Court, but also involved functions performed by the Department of Executive Administration's (DEA) Treasury Division, the Department of Information Technology (DOIT), and the Court's collection agency.

Summary of Results

Our review indicated that adequate internal control procedures were generally in place for the City's parking citation collection processes, with a few exceptions that are discussed below, and that substantive testing for compliance was not necessary at this time. However, we noted a few opportunities for potential control improvements, which are covered in this letter. The details of the review and our conclusions are also discussed below.

Background

Parking Enforcement Officers, and occasionally police officers, issue parking citations to vehicles for reasons such as being parked at expired meters, parking inappropriately in a loading zone, and parking illegally in a handicapped space. Parking citation fees range from \$35 for a “basic” parking ticket up to \$250 for unauthorized parking in a handicapped space. In 2004, the City collected about \$16.5 million in parking citation revenues and issued parking citations totaling about \$19 million. (See Appendix 2 for five years of historical data on parking citation revenues and parking citation fees.)

Citizens who receive parking citations have the option to pay them, request a hearing with a Magistrate at the Municipal Court, or request community service in lieu of payment. A Court estimate indicated that approximately 85 percent of citations issued are paid without going through the hearing process. Payments may be made in person at the Court or at City Neighborhood Service Centers, mailed in, phoned in, or made on-line. The majority of parking citation payments are mailed in and processed by the Treasury Division. Mailed-in payments may be made by check, walk-in payments may be made by cash, check, or credit card; and credit card payments may be made by using the Court’s Internet and Interactive Voice Response (IVR) technology.

Citizens may request a hearing with a Municipal Court Magistrate to challenge the parking citation and/or the fee amount. A Court estimate indicated that hearings are requested for approximately 10 percent of the parking citations issued. Citizens can request a hearing, known as a contested hearing, if they believe they should not have received the citation. Or, citizens may request a mitigation hearing if they admit guilt but they believe they had reasonable extenuating circumstances. In either case, the citizen appears before a Court Magistrate and explains their case. During the proceedings, a Magistrate reviews the case, along with the actual citation or its scanned image, the citizen’s history of citations on the Municipal Court Information System (MCIS), and any evidence submitted by the citizen. Based on the law and the case’s facts, the Magistrate decides whether the parking citation fine will be reduced, waived, or remain unchanged. At this point, the citizen may decide either to either pay the fees due, request time-payments, community service, or, if the hearing was a contested hearing, appeal the Magistrate’s decision in a formal Municipal Court hearing.

If citizens do not respond appropriately to a parking citation, by either paying it or going through the hearing process, a late penalty - \$20 for overtime parking, \$25 for other parking infractions - is automatically assessed by MCIS and a “delinquency postcard” is mailed out. If citizens still do not respond after another 38 days from the date of the mailed notification, their account will be turned over to the City’s collection agency. A Court estimate indicated that approximately 5 percent of the parking citations issued result in no response from the citizen and subsequently end up in collections. The collection agency follows Court-authorized and State-legislated procedures to collect the monies due to the City, which may include phone calls, letters, and garnishment of wages or bank accounts if the amount owed is large enough.

Project Scope and Methodology

This review covered internal controls associated with parking citation collection processes. Our objectives for the review were to determine whether internal control procedures are adequate to ensure parking fines are accurately recorded and tracked, and fine collection rates are maximized. Specifically, we reviewed the internal control procedures associated with:

- Recording and tracking issued parking citations
- Processing payments received
- Magistrate hearings
- Time-payments and community service
- Court follow-up on unpaid citations
- Collections activities performed by a third-party collection agency
- Accounting and financial reconciliations
- Information systems and security
- Security of confidential customer data

Based on the results of this work, we determined that a complete audit, which would include testing the control procedures, was not necessary.

During this review, we interviewed City personnel from the Seattle Municipal Court, the Treasury Division, and DOIT. We also met with officials from AllianceOne, the Court's collection agency, and visited their facility in Gig Harbor, Washington, to observe their processes. We reviewed data and documentation provided to us by the City and AllianceOne.

Observations and Conclusions

We concluded that the City's control procedures appeared overall to be adequate, and that the City has procedures and processes that should help ensure that the collection of parking fees is maximized. In addition, we noted several internal controls issues where improvement is either needed or should be considered. These issues are discussed in detail below. The discussion includes a summary of SMC's implemented or planned actions to address the issues (see "Management Actions").

Collection Rate

1. Recent Decrease in Collection Rate Data in Appendix 2 shows that the City's overall collection rate for parking citations issued has ranged from 84 percent to 96 percent during the last five years. Data we reviewed on the collection rates for other large municipalities shown in Appendix 3 indicates that Seattle's collection rate compares favorably. However, Seattle's overall collection rates declined from the mid-90 percent rates achieved during 1999-2002 to mid-80 percent rates in 2003 and 2004.

This represented a decrease of around \$1.5 million in potential revenues. The primary factor that contributed to this decline was a decrease in collection recoveries due to the Court's transition to a new collection agency during 2003 and 2004. In addition, there was an overall decrease in citizens that paid their ticket fines.

Management Action: The Court's Finance Division will track and analyze the 2005 parking citation collection rate, and identify any factors that cause an increase or decrease in the collection rate from 2004. The first-half 2005 collection agency recoveries indicate that recovery rates should increase from those levels achieved in 2003 and 2004.

Payment Processing

2. Credit Card Information Security Compliance A Cardholder Information Security Program (CISP) review has not been performed on the Cybersource platform, which the Court uses for its IVR and Internet parking citation payments, to determine whether the City is compliant with the new Payment Card Industry (PCI) Data Security Standard requirements. MasterCard and Visa adopted these new PCI security standards in January 2005 and made them a requirement for all "merchants" accepting their credit cards as of June 2005. MasterCard and Visa also established an annual compliance assessment and auditing requirements, based on the number of credit card transactions processed by the merchant. Merchants found to be in non-compliance with the PCI requirements face the possibility of large fines (up to \$500,000) by the credit card companies and the even more significant potential liability risk for the loss and/or exploitation of their customer's credit card data.

The City's current contracts with its bank and credit card processing vendors (VisaNet, Wells Fargo, and First Data) do not include language that requires compliance with the new PCI security standards. This is one of the PCI data security requirements and is important to help protect the City in the event of compromise of customer credit card data.

Management Action: The City initiated a City-wide CISP compliance project in July 2005. This project will result in a CISP audit plan that includes proper coverage for credit card payments made through the Court's IVR and Internet technology. The audit plan should be completed and audit target dates established by October 2005. The Office of City Auditor is facilitating this project in partnership with DEA's Treasury Division and DOIT.

The Manager of Treasury verified that Visa has certified the City's bank and credit card processing vendors as CISP-compliant. Language requiring compliance will be added to the City's bank and credit card contracts in 2007, when they are due for re-negotiation.

3. Efficiency of Processing Mailed-In Citations Parking citations mailed in with payment are sent to and processed by the Remittance Processing group within the

Treasury Division. This group manually sorts and enters the citations into an information system that updates the Court's MCIS database system. Remittance Processing has scanning and processing equipment called the 7780/WAUSAU, which is used to automatically scan documents and load data into information systems for other types of payments (e.g., City Light utility payments). Currently, this automated scanning equipment cannot be used for parking citations because the citations are too small and flimsy. If this process could be automated, the Treasury Manager estimates eliminating the manual processing could save the labor hours of one full-time employee.

Management Action: The City is currently considering replacing the technology used by Parking Enforcement Officers (PEO's) to issue parking tickets and has been researching alternative technology as part of an effort to respond to the Council SLI on parking enforcement. The Seattle Police Department (SPD) issued a Request for Information to parking ticket technology vendors, but has not yet put out the Request for Proposal. We referred this issue to SPD to see whether it can be addressed with the new technology the City plans on purchasing. SPD and Treasury are currently discussing technological options that could improve the efficiency of processing citations within Treasury.

Magistrate Hearings

4. Magistrate Fine Reductions The Court-provided data indicates that parking citations brought before Magistrates in 2004 were reduced on average by 64 percent from the original citation amount. (See Appendix 4 for 1999-2004 data on Magistrate fine reductions.) In 2004 the total reductions were about \$1.3 million. These figures include dismissed cases as well as reductions in fine amounts for citizens who were found to have committed the infractions. It should be noted that only about 10 percent of parking citations issued are ever brought before a Magistrate, and that the Magistrate mission includes educating the citizens about the City's parking regulations. We believe the reduction percentage warrants further research by the Court, which is in a better position to determine its reasonableness.

Management Action: The Court's Presiding Judge supervises the Magistrates and Commissioner. On an on-going basis, he monitors adherence with all court protocols, the infraction hearing calendar and case dispositions, including fine imposition information.

Accounting Practices

5. Accounting for Parking Citations Due Currently, the Court records parking citation revenues using the "cash basis" of accounting. In other words, revenues are recorded as the payments are received. Standard accounting practices indicate that amounts due should generally be recorded as Accounts Receivable when payment obligations are incurred and the associated revenue recognized at that time. This helps to ensure the financial condition of the organization is represented as accurately as possible in the financial reports. The Court may wish to consider recording parking citations issued as

Accounts Receivable when they are recorded in MCIS. However, the Court would also need to estimate a bad debt percentage and account for that, as well.

Management Action: The Court will replace the MCIS system with the new statewide limited jurisdiction case management system and will address this issue through the new system. SMC's Director of Finance verified that the State of Washington currently establishes an accounts receivable for parking payments due, and the Court will implement this practice when MCIS is replaced. The replacement system development project is underway, with a projected completion date of first quarter 2009.

Information Technology Controls

6. System Audit Logs System audit logs are a critical element of information security because they permit thorough tracking and analysis when something goes wrong. Currently, the audit logs available with the database software used by MCIS (i.e., Informix) have not been turned on. Court personnel indicated this was due to the computer processing time required for audit logging and the lack of resources to review audit logs. According to accepted information security standards, at a minimum, successful and failed attempts at system access and system object changes should be logged, and audit logs should be maintained for three months on-line and one year off-line. We discussed this issue with the information security consultant the Court hired to perform a security audit. He agreed that the Court needs to begin collecting and reviewing audit logs, and said that he plans to address this in his audit report. He also noted that automated exception-based monitoring tools could be used to make audit log review more manageable and limit the amount of data that actually needs to be regularly reviewed.

Management Action: Court officials said that the MCIS audit logs have been turned on, and are being archived so that all attempts to access the database could be traced. In addition, DOIT's Information Security group will work with the Office of City Auditor to develop a plan to strengthen and enforce the City's Information Security Policy requirements related to audit logging.

Protection of Confidential Customer Information

7. Protection of Customer Social Security Numbers AllianceOne, the Court's third-party collection agency, sometimes collects the social security numbers of City customers when performing its work. AllianceOne records these social security numbers in their database system in an unencrypted format. This exposes City customers' confidential data to potential loss and/or exploitation, and it also exposes the City to potential litigation. Given the recent passage of legislation in the State of Washington regarding handling of confidential personal data and the increasing number of highly-publicized customer data thefts, it is imperative that the City exercise due diligence in protecting

customer data. This includes ensuring protection of customer data that is in the custody of a third-party vendor that the City has hired.

Management Action: All data that is currently being exchanged between SMC and AllianceOne is encrypted for transfer purposes. AllianceOne is in agreement with the City that the encrypting of data at the collection agency level should be addressed as soon as possible. AllianceOne is currently working with their software vendor (CUBS) to include encryption of sensitive data in their application. They anticipate that this upgrade should be in place by December 2005. As an interim step, the Court will review its user access policy to AllianceOne data by Court personnel.

Attachments: Appendix 1 – Council Parking Enforcement SLI
Appendix 2 – Parking Citations Issued and Revenues, 1999-2004
Appendix 3 – Municipality Collection Rate Data, 2004
Appendix 4 – Magistrate Fine Reduction Data, 1999-2004

cc: Amanda Allen, Department of Finance
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APPENDIX 1

Statement of Legislative Intent: The Council requests that several City departments including SPD, SDOT, the Municipal Court, DOF, and the Office of the City Auditor cooperate in investigating the effectiveness of the City's parking enforcement and reporting back to the Council. The issues under I. below will be the primary responsibility of SPD with the assistance of SDOT and DOF. The issues under II below will be the primary responsibility of the Office of the City Auditor with the assistance of the Municipal Court. The departments will coordinate the development of a written report to be made available to the Council's Transportation Committee no later than June 1, 2005.

I. SPD with the assistance of SDOT and DOF

- A. Issues to be included in a report delivered to the Council Transportation Committee no later than June 1, 2005 include a recommended set of performance measures that can be used by the Council to track how the City's PEOs are being used. At a minimum the performance measures will include:
 - 1. average annual PEOs employed compared to the number of PEO positions authorized and funded;
 - 2. minimum percent of annual PEO total time on the job that is used for on-duty time with no significant restrictions such as light duty;
 - 3. minimum annual and monthly (may vary by month) percent of on-duty time spent on routine patrol; and
 - 4. average number of tickets written per routine duty hour.
- B. A Work Plan to suggest recommended approaches and timing for addressing the issues below should to be delivered to the Council no later than September 1, 2005. (Note it is anticipated that the approach taken in addressing the issues below will depend on what new hand held ticketing device (HHTD) technology is selected, if any, to replace the existing obsolete units. Therefore this work plan is to be developed after a decision on whether to replace the HHTDs and with what. If it is decided not to replace the HHTDs in 2006, then the work plan will suggest what is feasible with the existing devices.)
 - 1. A geographical analysis comparing levels of parking enforcement and overall enforcement effectiveness in different areas of the City with controlled parking spaces and development of enforcement standards that could guide redeployment of PEOs to enhance consistency of enforcement throughout the City.
 - 2. A review of the efficiency of PEO procedures for locating violations of parking regulations and citing them.
 - 3. Provided that the Office of the City Auditor pursuant to task II. B. recommends that the City enhance its capability to determine a-c below, SPD will provide recommendations for ways to estimate and monitor the data, along with an estimate for the cost and labor requirements of data collection and analysis:
 - a. the average number of hours per day each controlled parking space is in use in various parts of the City by customers who should pay (e.g., Ballard, 4.6 hours per 10 hour day);
 - b. the number of hours during which controlled parking spaces in various parts of the City are not available for pay parking and the reasons therefore; and
 - c. the annual number of violations of parking regulations by regulation violated and section of the City.

The Office of City Auditor with the assistance of the Municipal Court

- A. A briefing to the Council Transportation Committee no later than March 15, 2005 on progress and potential problems that could compromise the scope of the report in B. below or delay its completion.
- B. Issues to be included in a report delivered to the Council Transportation Committee no later than June 1, 2005:
 - 1. Ticketing Technology. A survey of new ticket-writing technology (utilizing/complementing pay and display station functionality) and its implementation in other similar jurisdictions using pay and display stations. This might also include supporting work by SPD and DOIT on a high-level analysis. Also an analysis of how new technologies compare with the technology now used by Seattle PEOs and the advantages and disadvantages they offer with an assessment of the efficiencies from adoption of new technology (e.g., average reduction in time to locate a violation, to ticket a violator, to travel to and from duty areas, to enter violations into a data base, etc.).
 - 2. Pay Station Implications on PEO Deployment and Procedures. A survey of other jurisdictions that have implemented pay stations to identify potential changes to PEO deployment and procedural changes necessitated by the introduction of pay stations.
 - 3. Parking Enforcement Performance Measures. A survey of how other City's assess the adequacy of parking enforcement activities (e.g., what performance measures are used, how data on performance is collected, and how the information is used), including but not limited to whether they estimate or collect data on how many hours each day controlled parking spaces are in use by customers who should pay, the number of hours during which controlled parking spaces are not available for pay parking and the reasons therefore, and an estimate of the total annual number of violations of parking regulations by the regulation violated.
 - 4. Fine Collection. An analysis of payment process; fine-setting, fine amounts vs. payment amounts, receivables processing and collections, and record keeping and accountability, along with possible recommendations for improvement.

Supporting Information (if needed): See Round 1 issue paper for more information.

Responsible Council Committee(s): Transportation

Date Due to Council: Varies. See above.

APPENDIX 2

PARKING CITATIONS DATA - 1999-2004

Year	Parking Citations Filed (*Actual)	Parking Revenue Received (Actual)	Average Ticket Price	Potential Citation Revenue	Citation Collection Rate
1999	505,956	\$13,651,262	(estimate) \$29	(est.) \$14,672,724	(est.) 93%
2000	454,568	\$12,706,513	(estimate) \$29	(est.) \$13,182,472	(est.) 96%
2001	459,171	\$12,579,033	\$29.69	\$13,632,787	92%
2002	431,861	\$11,920,033	\$28.95	\$12,502,376	95%
2003	441,682	\$14,039,839	\$37.84	\$16,713,247	84%
2004	506,117	\$16,464,649	\$37.66	\$19,060,366	86%

* 'Actual' data was provided by the Seattle Municipal Court and 'Estimated' data was calculated by the Office of City Auditor, using an estimate for Average Ticket Price.

APPENDIX 3

MUNICIPALITY COLLECTION RATE DATA

<u>City</u>	<u>Collection Rate Percentage in 2004</u>
Boston	87%
Seattle	86%
San Francisco	85%
San Diego	80%
Denver	80%
Los Angeles	79%
Milwaukee	75%
Washington, DC	74%
Philadelphia	71%

Note: Data provided by ACS (parking ticket services firm) for San Francisco, Los Angeles, Denver, Boston, D.C., & Philadelphia. Data provided by Seattle Municipal Court for San Diego, Milwaukee, & Seattle.

APPENDIX 4

MAGISTRATE FINE REDUCTION DATA, 1999 - 2004

Year	Total Annual Citations Filed	*Magistrate Cases Held	% of Magistrate Cases Held to Citations filed	**Value of Fines if Fully Paid	Fine Ordered on Cases Held	Fine Reduction Amount	Magistrate Discount Percentage
1999	505,956	33,414	6.60%	\$ 1,064,439	\$ 330,200	\$ 734,239	69%
2000	454,568	31,557	6.94%	\$ 1,041,831	\$ 298,364	\$ 743,467	71%
2001	459,171	35,026	7.63%	\$ 1,267,220	\$ 377,963	\$ 889,257	70%
2002	431,861	33,511	7.76%	\$ 1,164,788	\$ 328,765	\$ 836,023	72%
2003	441,682	43,482	9.84%	\$ 1,733,273	\$ 528,113	\$ 1,205,160	70%
2004	506,117	51,545	10.18%	\$ 2,090,873	\$ 745,690	\$ 1,345,183	64%

(Data was provided by the Seattle Municipal Court, except for the percentage column, which was calculated by the Office of City Auditor.)

*Does not reflect the number of cases that were defective, rejected, or dismissed where fines were not imposed.

**Dollar amounts do not reflect cases that were defective, rejected, or dismissed where fines were not imposed.